

EXECUTIVE SUMMARY

DCMC-OG

MEMORANDUM FOR COMMANDER DEFENSE CONTRACT MANAGEMENT COMMAND

FROM: DCMC-OG
Prepared by: Ella E. Studer/DCMC-OG/767-3398/July 17, 1998

SUBJECT: Activity Report for Management Reform Memorandums
(MRM) 5 and 10

PURPOSE: To obtain the Commander's signature on the attached memorandum
forwarding the subject report to USD (A&T), et al

Upon your approval of reports for MRMs 5 and 10 for the period ending June 30, 1998,
DCMC-OG will make final dissemination and distribute electronically to DoD Process Action
Teams via-email and the DCMC Home Page.

RECOMMENDATION: Commander sign the memorandum at TAB A.

Approved for Submission to the Commander: JILL E. PETTIBONE _____

DCMC-OG

23 Jul 1998

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (ACQUISITION AND
TECHNOLOGY)
PRINCIPAL DEPUTY UNDER SECRETARY OF DEFENSE
(ACQUISITION AND TECHNOLOGY)
DIRECTOR, DEFENSE PROCUREMENT
DEPUTY UNDER SECRETARY OF DEFENSE (ACQUISITION
REFORM)
DEPUTY UNDER SECRETARY OF DEFENSE (LOGISTICS)
ASSISTANT SECRETARY OF THE ARMY (RESEARCH,
DEVELOPMENT AND ACQUISITION)
ASSISTANT SECRETARY OF THE NAVY (RESEARCH,
DEVELOPMENT AND ACQUISITION)
ASSISTANT SECRETARY OF THE AIR FORCE (ACQUISITION)
DIRECTOR, BALLISTIC MISSILE DEFENSE ORGANIZATION
THROUGH: DIRECTOR, DEFENSE LOGISTICS AGENCY

SUBJECT: Activity Reports for Management Reform Memorandums (MRM) 5 and 10

Forwarded for your review are the activity reports for MRMs 5 and 10. The reports are intended to keep you apprised of these high-visibility programs.

Should you have any questions or concerns regarding information contained in the attached reports, please contact Ms. Janice Hawk, (703) 767-3433 for MRM #5, and Ms. Ella E. Studer, (703) 767-3398 for MRM #10.

//s//

TIMOTHY P. MALISHENKO
Major General, USAF
Commander

Attachments

cc:

See Distribution

Distribution list:

OASA (RD&A)

ASN (RD&A) ARO

ASN (RD&A) ABM

PDASAF (Acq & Mgmt)

Joint Staff ATTN: J4/SMPED

DLSC

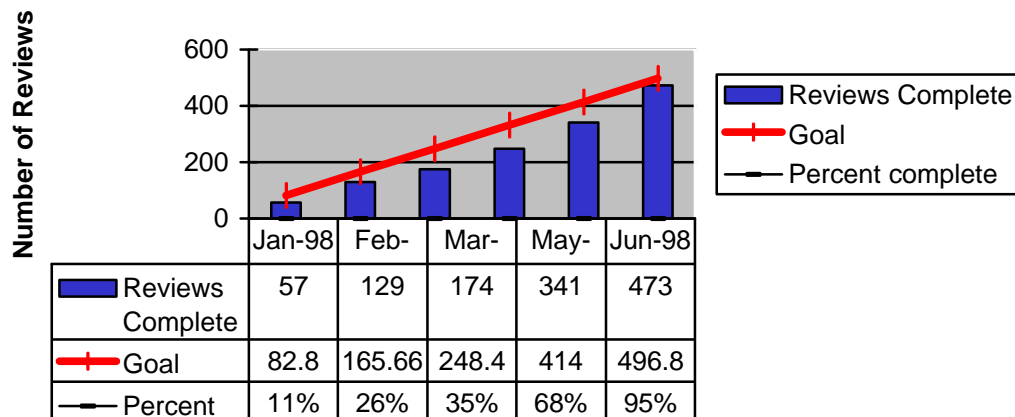
Management Reform Memorandum #5 (MRM #5)
Disposal of Excess Government-Owned Property
Monthly Report
Period Ending June 30, 1998

Purpose

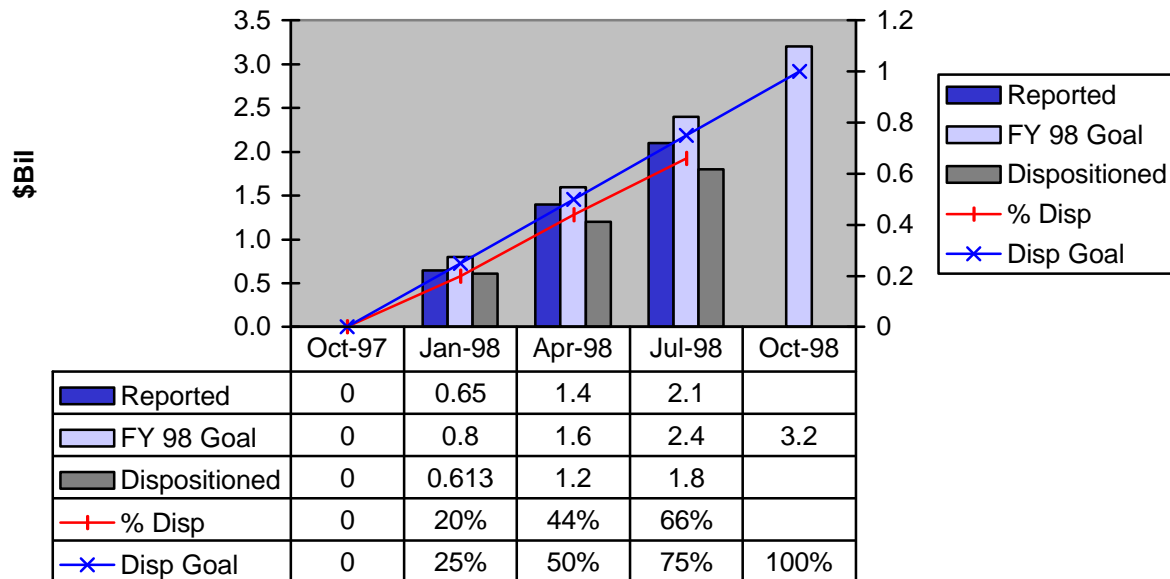
- Dr. Hamre instituted MRM #5 in May 1997 as an effort to dispose of excess Government property in possession of defense contractors. The goal is to dispose of \$7 Billion of property by January 1, 2000. MRM #5 is a joint effort of the Military Services and Defense Agencies, with Defense Contract Management Command as the lead agent.

Status

- **Goal #1:** By June 30, 1998, review 100 percent of the contractors' systems with contracts having more than \$3M of government property:
 - 100% of required reviews are scheduled (500 total reviews).
 - 95% of reviews completed as of June 30 (473 reviews complete).
 - Army - scheduled - 80, completed - 64 (80%)
 - Navy - scheduled - 47, completed - 47 (100%)
 - Air Force - scheduled - 56, completed - 45 (80%)
 - DCMC - scheduled - 317, completed - 317 (100%)



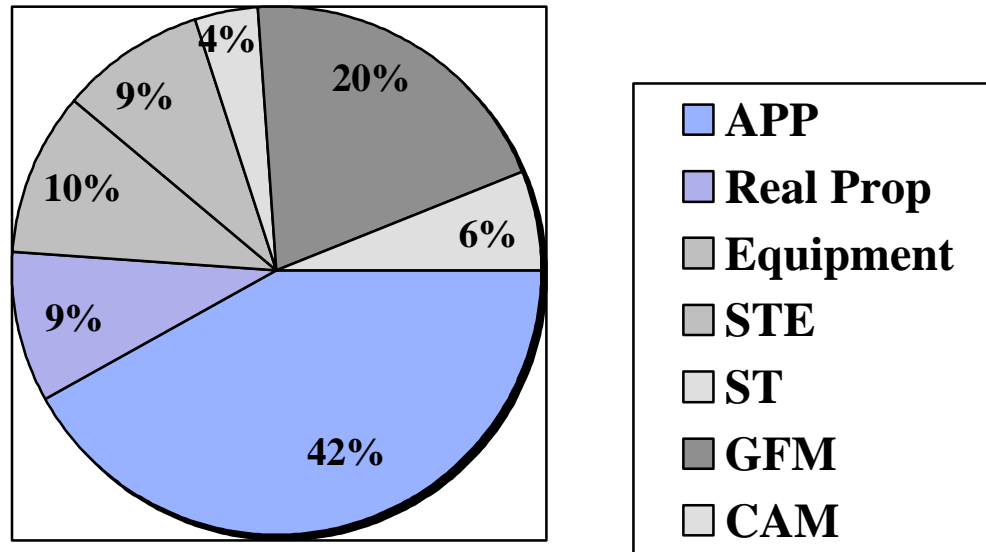
- **Goal #2:** Dispose of \$3.2 Billion of excess property by end of FY 98
 - \$716 million reported in 3Q FY 98 (vs. \$358 mil 3Q FY 97)= 50% increase.
 - Acquisition value of property currently being processed (\$1.87 billion) is highest level in over two years.
 - Disposal is on an upward trend as focus shifts from completed utilization reviews.



Other MRM #5 Actions:

- In February 1998, The Director of Defense Procurement (DDP) issued 3 class deviations to FAR Part 45. For excess property reported to GSA, the screening time frames were reduced from 60 to 36 days. This change will be incorporated in the FAR 45 rewrite. For property in poor and salvage condition, along with special test equipment without standard components, GSA screening is no longer required. This deviation is in effect until March 2000. The third deviation waives GSA screening for all property in scrap condition. This change will be incorporated in the FAR 45 rewrite. All of these deviations will accelerate the disposal process.
- In June 1998, DDP issued Departmental Letter 98-014 to lower the level of approval required for the use of auctions, spot bids, and retail sales of surplus contractor inventory from the head of the contract administration activity to the commander of the contract administration office. The plant clearance process will be accelerated when these types of sales are authorized.
- Language has been incorporated into the rewrite of the Defense Demilitarization Manual, DoD 4160.21-M-1, which will reduce the scope of special tooling requiring demilitarization (currently 100%) to approximately 15%. This change will help accelerate special tooling disposition. The Demilitarization Manual is expected to be published by the end of FY 98.
- As part of the MRM #5 initiative, it became apparent to the Department of the Navy (DON) that not all the players necessary to complete a comprehensive review of excess property were involved. In coordination with DCMC, the DON imposed a 120-day moratorium on property disposal actions. This moratorium allowed the DON to ensure all concerned parties were identified and incorporated into the excess property review plan.
- DCMC has hosted training workshops for the DoD community, made presentations to defense contractors, prepared an MRM #5 informational video, and held workshops during Acquisition Reform Week III.

- Government owns \$89B at Contractor Plants-only \$44B (49%), not including APP and Real Property, is within the MRM #5 Universe (top half).



APP - Agency Peculiar Property (Tanks, Engines)
STE - Special Test Equipment (Test Stations)
ST - Special Tooling (Jigs, Dies, Fixtures)
GFM - Government Furnished Material (Nuts, Bolts, Etc.)
CAM - Contractor Acquired Material (Nuts, Bolts, Etc.)
Equipment - (Computers, Lathes, Milling Machines, Etc.)
Real Property - (Land, Buildings)

UPDATE:

- Briefed Mr. Houley, (MRM #5 Disposal of Excess Government-Owned Property on May 15, 1998)
- Briefed purpose and status of MRM #5 to DCMC and Contractor representatives at the National Property Management Association (NPMA) conference June 1-5 in Santa Fe, New Mexico.

Management Reform Memorandum # 10 (MRM #10)
Redesigning Department of Defense Source Acceptance Policies and Procedures
Monthly Report
Period Ending June 30, 1998

Purpose:

- Perform a comprehensive reassessment of current source acceptance policies and procedures. Identify and eliminate policies and procedures that lead to the performance of unnecessary source inspection. Develop alternative methods of assuring quality.

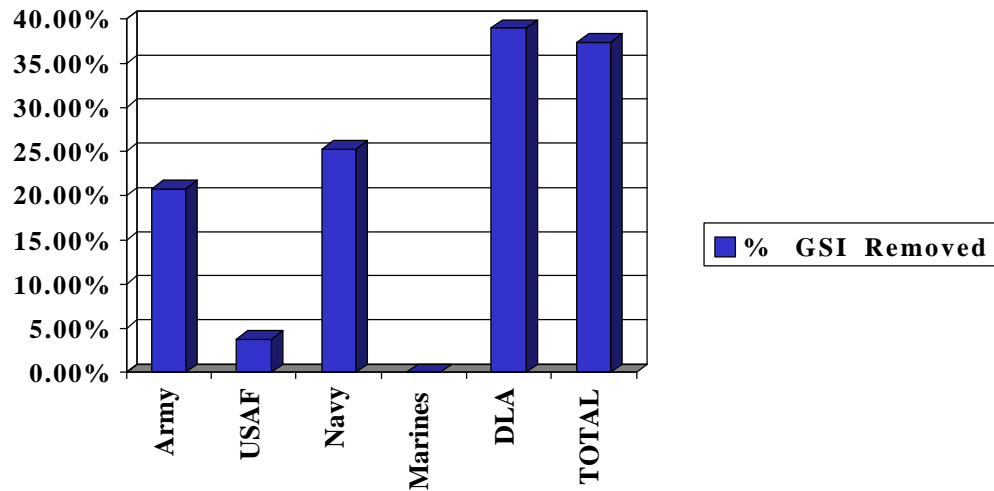
Overall Summary

- **Getting the word out.**
 - MRM #10 was highlighted in the Defense Logistics Agency April/May 1998, Dimensions magazine.
 - Mr. William Houley, the new Director, Defense Reform Initiative Office, was given a status briefing on May 15, 1998.
 - Ms. Mary Margaret Evans, the new Deputy Director, Defense Reform Initiative Office, was given a status briefing on June 29, 1998.
 - Mr. Stan Soloway, Deputy Under Secretary of Defense (Acquisition Reform) and Ms. Donna Richborg, Principal Assistant to the Deputy (Acquisition Reform), were briefed on MRM #10. The briefing covered developing alternative methods of assuring quality by moving DoD from managing supplies to managing suppliers. They commented it was a great briefing and that the work already accomplished under MRM #10 is a really good jumping off point for the 912 group that will be studying managing suppliers. They want DCMC to use the briefing and our industry best practices study accomplished by Andersen Consulting to kick off the 912 group and to fold future MRM #10 work into the study.
- **Barrier removed.** On June 24, 1998, the DAR Council agreed to a draft final rule, after resolution of public comments, on FAR Case 97-027, Mandatory Government Source Inspection. This case eliminates mandatory GSI when a higher level quality requirement is called out in a contract and when supplies are destined for overseas shipment. This case results from MRM #10 and was submitted by DLA. The case now goes to the CAAC for approval as a final rule and publication in the FAR.
- **Computers changed.** Several procurement databases automatically added GSI to contracts. The Air Force procurement system correcting the default problem is scheduled to come online within the next year. The Naval Inventory Control Point (NAVICP) submitted a change request to modify the current provisioning system, the Interactive Computer Aided Provisioning/Ships Provisioning System for Ships and Submarine, to limit automated GSI to only Level 1/Subsafe items.

- **Several policies were revised and updated.** For example, Defense Supply Center Philadelphia (DSCP), Clothing & Textiles Directorate, published an updated version of DSCP Manual 4155.3, Quality Systems Requirements. It contains numerous changes resulting from substantial changes in business practices. A joint DSCP/DCMC training class is being arranged to communicate the new requirements/guidelines to all field offices. Defense Supply Center Columbus (DSCC) developed and implemented an Integrated Policy Memorandum (IPM) to provide information, guidance, and policies regarding the responsibilities for implementation of the DSCC Origin Inspection Validation Plan (OIVP). The Plan was developed to ensure all DSCC source inspection contract requirements are reviewed during FY98 and FY99, and all unnecessary origin inspections changed to destination. This procedure applies to the DSCC Quality Assurance Specialist (QAS) responsible for establishing the place of inspection (PIC) for government contract quality assurance at source or destination. The Navy has revised existing policies and procedures for invoking GSI. This includes submission of a change request to revise the provisioning system for ships/submarines to limit GSI to only Level 1/subsafe.
- **Streamlined process.** Oklahoma City Air Logistics Center, Tinker Air Force Base, Oklahoma, created an Integrated Product Team consisting of Quality Assurance, Contracting, Engineering and Item Management personnel. The team examined current GSI practices, identified areas of process improvement, applied new FAR Part 46 GSI requirements, and addressed Dr. Hamre's MRM #10 concerns. These efforts resulted in a procedural guide outlining the steps taken to establish quality assurance provisions and special inspection requirements for all contracts at the Air Logistics Center. The guide's thoroughness and ease of use resulted in a streamlined inspection requirements review process at the Center.
- **Working issues as a team.** The following are examples of DCMC and buying centers working together to remove unnecessary GSI:

 - “Thanks for the heads up on one that slipped through the crack! DSCR has reviewed NSN 5975-00-538-6260 (Wall Plate Covers) technical data file and concurs with DCMDE recommendation. Criticality code was removed and it has been coded as a commercial item. The contract technical data file now calls for destination inspection in lieu of origin. What may have caused the requirement of GSI was its use on numerous weapon systems to include the Seawolf submarine, C-5A Aircraft, and T-37/T-38 aircraft support equipment. DCMDE's assistance in this arena is very much appreciated.”
 - “It took some discussion to have the DCMC recommendation on removing GSI on the television monitor accepted by the Center quality assurance specialist. However, the item had source inspection removed. I encourage DCMC's continued involvement in reviewing origin awarded contracts as it gives us an opportunity to remind the Center quality assurance specialists on the importance of proper coding.”

NSN Review Status Update June 30, 1998



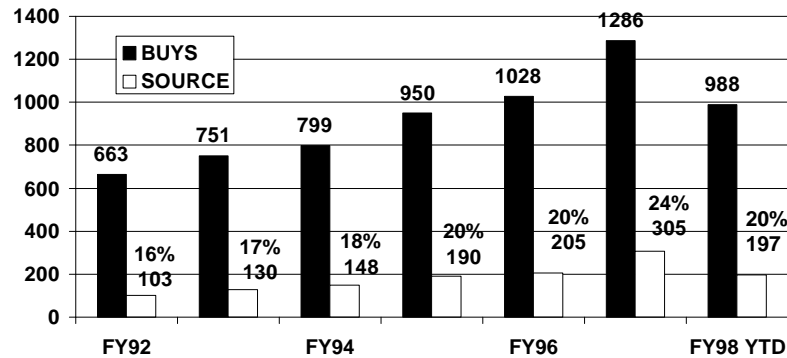
	Army	USAF	Navy	Marines	DLA	TOTAL
# Reviewed	4,448	5,311	20,404	10	318,908	349,081
# Removed GSI	925	204	5,160	0	124,399	130,688
% Removed GSI	20.8	3.8	25.3	0	39	37.4

- Most NSN are being reviewed “as procured”
- Not all NSNs are active--may never be reviewed
- Numbers include mass computer changes of NSN categories.

Defense Logistic Support Command (DLSC):

DLA FY TOTAL BUYS vs SOURCE INSPECTED BUYS

THOUSANDS



DSCC-Columbus:

Construction	2 nd QTR 1998	3 rd QTR 1998	Cumulative To Date
Number Unchanged	11,805	6,697	18,502
Number Changed	2,003	1,380	3,383
% Changed to Destination	14.5	17.1	15.5
Total Reviewed	13,808	8,077	21,885
Electronics			
Number Unchanged	2,118	1,618	3,736
Number Changed	3,142	1,855	4,997
% Changed to Destination	59.7	53.4	57.2
Total Reviewed	5,260	3,473	8,733
DSCC Totals			
Number Unchanged	13,923	8,315	22,238
Number Changed	5,145	3,235	8,380
% Changed to Destination	27.2	28.0	27.4
Total Reviewed	19,068	11,550	30,618

DSCP - Philadelphia:

Subsistence	2nd QTR 1998	3rd QTR 1998	Cumulative To Date
Number Unchanged	3	202	205
Number Changed	170	0	170
% Changed to Destination	98.3	0	45.3
Total Reviewed	173	202	375
Medical			
Number Unchanged	332	0	332
Number Changed	5,996	0	5,996
% Changed to Destination	94.7	0	94.7
Total Reviewed	6,328	Completed	6,328
Clothing & Textiles			
Number Unchanged	156	4	160
Number Changed	35	33	68
% Changed to Destination	18.3	89.2	29.8
Total Reviewed	191	37	228
DSCP Totals			
Number Unchanged	491	206	697
Number Changed	6,201	33	6,234
% Changed to Destination	92.7	13.8	90
Total Reviewed	6,692	239	6,931

NOTE: All medical item NSNs have been reviewed.

DISC - Philadelphia:

DISC	2nd QTR 1998	3rd QTR 1998	Cumulative To Date
Number Unchanged	1,660	143,372	145,032
Number Changed	179	53,299	53,478
% Changed to Destination	9.7	27.1	27
Total Reviewed	1,839	196,671	198,510

DSCR – Richmond:

DSCR	2nd QTR 1998	3rd QTR 1998	Cumulative To Date
Number Unchanged	17,856	8,686	26,542
Number Changed	7,471	4,380	11,851
% Changed to Destination	29.5	33.5	30.9
Total Reviewed	25,327	13,066	38,393

DLSC TOTALS	2nd QTR 1998	3rd QTR 1998	Cumulative To Date
Number Unchanged	33,930	160,579	194,509
Number Changed	*63,452	60,947	124,399
% Changed to Destination	35.9	27.5	39
Total Reviewed	*97,382	221,526	318,908

*** Mass computer changes not included in last report.**

Marine Corps	2nd QTR 1998	3rd QTR 1998	Cumulative To Date
Number Unchanged	10	0	10
Number Changed	0	0	0
% Changed to Destination	0	0	0
Total Reviewed	10	0	10

- Marine Corps has submitted 59 Government Source Inspection (GSI) contractual documents to include delivery orders and purchase orders to DCMC for administration. A spot audit of third quarter submission revealed that GSI was unnecessarily marked for some items; as a result Headquarters Marine Corps Contracts Division is requesting a full review of the 59 documents submitted. Accordingly, a policy letter will be issued reminding Contracting Officers that while source acceptance is an important element of the Department's quality assurance program, it necessitates significant expense and requires government-unique business systems and practices. Commercial source-acceptance business procedures, by contrast, are significantly less expensive with no apparent loss of effectiveness.

Army	2nd QTR 1998	3rd QTR 1998	Cumulative To Date
Number Unchanged	1,486	2,037	3,523
Number Changed	331	594	925
% Changed to Destination	18.2	22.6	20.8
Total Reviewed	1,817	2,631	4,448

Navy:

* Level 1/Subsafe	2nd QTR 1998	3rd QTR 1998	Cumulative To Date
Number Unchanged	4,763	0	4,763
Number Changed	0	0	0
% Changed to Destination	0	0	0
Total Reviewed	4,763	0	4,763
** Nuclear Reactor Material			
Number Unchanged	6,750	0	6,750
Number Changed	0	0	0
% Changed to Destination	0	0	0
Total Reviewed	6,750	0	6,750
Submarine HOE			
Number Unchanged	0	0	0
Number Changed	890	0	890
% Changed to Destination	100	0	100
Total Reviewed	890	0	890
Aviation			
Number Unchanged	1,465	660	2,125
Number Changed	138	27	165
% Changed to Destination	8.6	3.9	7.2
Total Reviewed	1,603	687	2,290
Ship Systems			
Number Unchanged	0	1,606	1,606
Number Changed	0	4,105	4,105
% Changed to Destination	0	71.9	71.9
Total Reviewed	0	5,711	5,711
Navy Totals			
Number Unchanged	12,978	2,266	15,244
Number Changed	1,028	4,132	5,160
% Changed to Destination	7.3	64.6	25.3
Total Reviewed	14,006	6,398	20,404

- * Source inspection retained in accordance with NSLC letter 4400 Ser N44/00864 dated December 12, 1997.
- ** Source inspection retained in accordance with NAVICP letter 4400 Ser 874/02 dated January 29, 1998.
- **Ahead of schedule.** The Navy has reviewed 83% of items projected for procurement in FY 98 and FY 99 that are coded for GSI.

Air Force	2nd QTR 1998	3rd QTR 1998	Cumulative To Date
Number Unchanged	2,317	2,790	5,107
Number Changed	129	75	204
% Changed to Destination	5.3	2.6	3.8
Total Reviewed	2,446	2,865	5,311

- Reports from the field for 3rd Qtr FY98 were a great improvement over the prior quarter both in timeliness and completeness. Promptness of field responses after the end of the 3rd Qtr and comments in center reports showed that many of the centers greatly improved their application of the new GSI requirements as stated in FAR Part 46 and streamlined their reporting processes.
- All directorates at all logistics centers began full reporting of their GSI review results. Three of the four product centers indicated full reporting. This is a significant improvement over 2nd Qtr FY98. The missing data is anticipated to be minimal, as the missing center response should represent less than five percent of the commands' response, based upon their contracting activity.
- While the extent of centers and center directorates reporting increased significantly from 2nd Qtr FY98, the numbers of procurements did not increase proportionately. This was due to a decrease in inventory demand.
- GSI requirements review of the few consumable items remaining under AF management is included in the numbers reported below. The majority of consumable items managed at the field have been transferred to DLA. Procurements of transferred consumable items are not counted as Air Force procurements and are not depicted in the numbers below. Specific breakout out of consumable items remaining under AF management has not been possible at this time.
- The total number of NSNs reviewed includes 725 items that did not require GSI originally.
- Figure 1 depicts the overall status of quarterly AF NSN procurements with respect to the current AF managed NSN library and current AF contracts requiring GSI. The number of AF managed NSNs requiring GSI is not documented by the Air Force or DLA. DLA tracks the number of contracts requiring GSI by Service, which is shown here.
- The number of quarterly AF NSN procurements is extremely small compared to the overall AF managed NSN inventory. Figure 2 depicts GSI review results on a smaller scale. As the review continues, it is expected that the NSNs requiring GSI will continue to decrease as a percentage of Air Force NSNs procured.

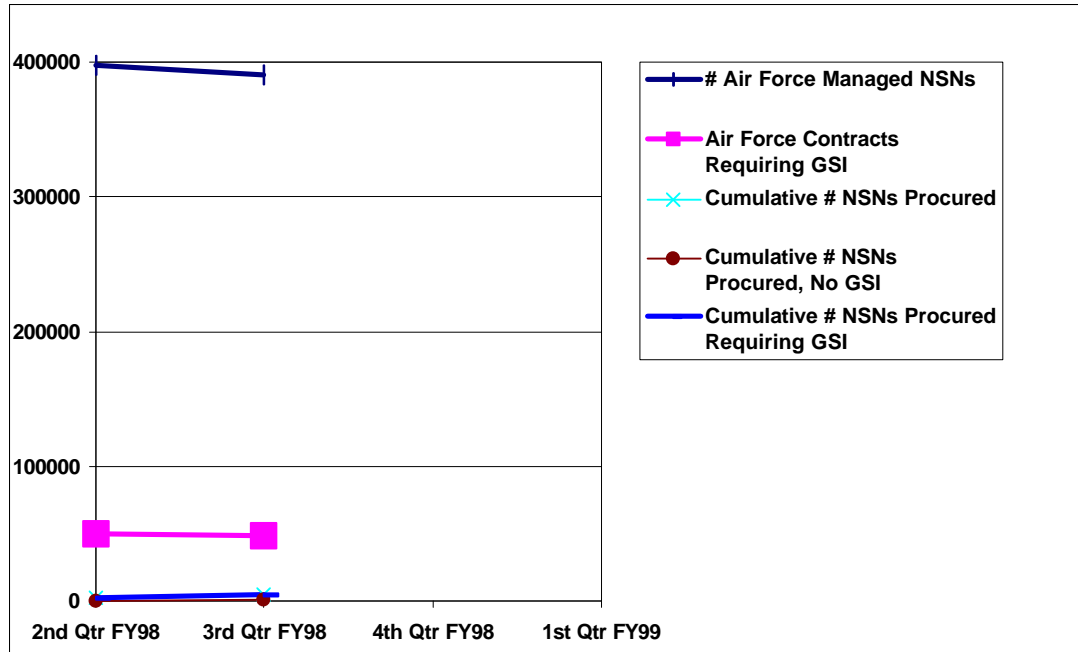


Figure 1. GSI requirements on current AF Contracts

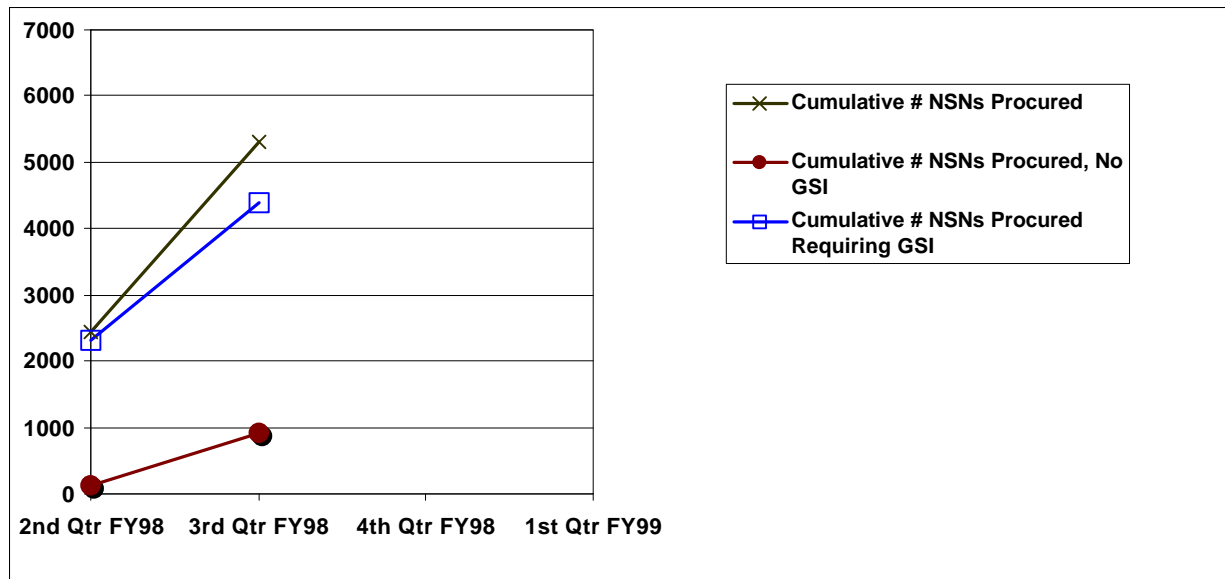


Figure 2. 3rd Quarter FY98 Review Results